



**{In Archive} Fw: Daily Gas/Diesel Price**

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Cc: R6 6PD-L

09/15/2008 09:29 AM

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09/15/2008 09:08 AM

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Subject Re: Daily Gas/Diesel Price 📎

# Hurricane Hangover, Shortages Ahead

By Jim Brown

Updated: Monday, September 15 2008 01:09:AM

Ike's sudden left turn just before it made landfall meant that the 13 refineries in Houston escaped the brunt of the hurricane's force. All are reporting they sustained no material damage and will begin the restart process as soon as power is restored. That could be a week to ten days before power is stable and another 2-3 days to restart. This suggests there could be a serious problem for refined products like gasoline and diesel.

As a result of hurricane Gustav and the refinery shutdowns in the Louisiana area the availability of refined products is already limited. Most of the refineries in Louisiana are back up and running but several are at reduced capacity because of a shortage of oil. The Louisiana Offshore Oil Port (LOOP) was down over a week for Gustav and most of last week due to Ike. Tankers were avoiding the gulf not knowing where Ike was headed. They should be unloading their cargo into the LOOP again this week.

Most of the 1.4 mbpd of gulf production has been offline for the last two weeks. That is roughly 14 million barrels that were not available for Louisiana refineries to use. Most of that production will be back online by the end of next week but there will still be a shortage of crude in that area for weeks to come.

The surge from Ike is threatening three refineries in the Lake Charles area on the Texas border. They were not initially seen as a hurricane risk but the size of Ike caused a surge peak farther west than expected. As of Sunday 16 refineries representing 25% of U.S. capacity were offline. Texas officials are saying it could take weeks to restore power.

## HOUSTON AREA REFINERIES SHUT

ExxonMobil Baytown	562,500 bpd
BP Texas City	417,000 bpd
ExxonMobil Beaumont	348,500 bpd
Shell Deer Park	333,700 bpd
Motiva Port Arthur	285,000 bpd
LyondellBasell Houston	268,000 bpd
Valero Port Arthur	260,000 bpd
ConocoPhillips Sweeny	247,000 bpd
Valero Texas City	218,500 bpd
Petrobras Pasadena	100,000 bpd
Valero Houston	83,000 bpd
Marathon Texas City	76,000 bpd
Total Port Arthur	240,000 bpd

## REFINERIES AT REDUCED RATES

Conoco Westlake, La.	239,400 bpd
Citgo Lake Charles, La.	429,500 bpd

## **Gasoline shortages ahead!**

Drivers across the southwest were already facing long lines and prices higher by as much as 25 cents a gallon in some states. Federal officials are preparing for a prolonged disruption in fuel supplies. According to EIA data gasoline inventories the week Gustav hit were at the lowest level since 2000 at 187.9 million barrels or 21 days of supply. Much of that inventory is required just to keep the pipeline full and cannot be used. Pipelines only run when they are full. There are thousands of pumps along the way that require product in order to run. If allowed to run dry the pipeline would cease to function and require a lengthy restart period. Basically product only flows out when new product is pushed in thousands of miles away.

Gasoline traveling by pipeline from Texas to New Jersey takes an average of 18.5 days to make the trip. The shortages from Gustav took 11 days to appear. Since before Gustav hit there has been a drop in refinery output of around 3 million barrels per day. If it takes another two weeks to get the refineries back online that is another 42 million barrels of refined product shortages.

## **Pipelines Closed**

One of the biggest refined products pipelines is the 5519-mile Colonial with a capacity of 2.4 mbpd. It is currently shutdown because of lack of product. The colonial stretches from Texas to New York and feeds all the states along the way. If the Colonial is not restarted soon the entire eastern seaboard will begin experiencing fuel shortages. The 700,000 bpd Explorer pipeline from Texas to Indiana is completely shutdown from lack of product. The 600,000 bpd Plantation pipeline from Louisiana to Virginia is operating at greatly reduced rates. All of these pipelines could be offline for another two weeks suggesting a serious shortage of fuel will develop on the east coast.

## **Fuel shortages will involve gasoline, diesel and jet fuel. Expect rationing.**

Prices for fuel are likely to rise substantially along the east coast as drivers compete for the available fuel. This is the equivalent of rationing by price. Only those desperate enough to pay the price will be able to buy gas. Consumers may have to cut back on unnecessary trips until supplies return. It is possible Airlines may have to cancel flights from the east coast until jet fuel is again in available. This suggests they will cancel flights to the east coast rather than have their planes grounded there for lack of fuel.

If fuel shortages do develop it could cause a feedback loop in the economy. A two-three week period where travel is seriously curtailed means fewer trips to the mall, going out to eat, taking weekend trips, visiting relatives, etc. Restaurants could see a significant drop in revenue. This could be a preview of what peak oil will look like.

## **Natural gas shortages**

Henry Hub, the delivery point for natural gas futures was also shutdown for Ike and is in the

region that was heavily flooded. The NYMEX was forced to declare force majeure on deliveries for August and September contracts.

So far only one major rig has been reported as broken free of its moorings. The Transocean Marianas rig apparently broke free and satellite tracking is showing it floating two miles away from its drill site. Transocean personnel flew over the rig on Sunday to confirm its location and visually inspect it for damage. Transocean plans to send workers to board the rig on Monday and further inspect for damage. This is the same rig that broke free of its moorings and was found 140 miles away after Hurricane Rita. All other Transocean rigs are reported safe and secure.

The result of no material indications of other platform damage in the gulf and the anticipated loss of 20% of our refining capacity for the next 7-10 days or longer pushed the price of oil down to \$98.46 in early trading Sunday night. The \$97-98 range is strong support and hopefully a level that holds. There have been several unsourced reports this weekend that Saudi Arabia is NOT going to cut its 700,000 bpd of over quota production despite being instructed to do so by OPEC. If that is the case the price of oil is going much lower but it would require authentication of the story by a credible source.

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